

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 PA-01

PRS-01 USIA-06 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

XMB-02 OPIC-03 LAB-04 SIL-01 /093 W

----- 129011

R 080905Z AUG 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2351

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L TOKYO 11028

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN JA

SUBJ: FOREIGN EXCHANGE MARKET DEVELOPMENTS

1. YEN SPOT EXCHANGE RATE REMAINED WITHIN YEN 296-297/DOLLAR RANGE THROUGH MOST OF JULY THEN WEAKENED SLOWLY TO REACH 298/DOLLAR IN EARLY AUG. DURING PAST WEEK (AUG 4-8), CENTRAL SPOT RATE HAS NOT BEEN ALLOWED TO DROP BELOW 298/DOLLAR. BOJ SUPPORT HAS BEEN REQUIRED TO MAINTAIN THIS RATE AND ON SOME
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DAYS THE SUPPORT HAS BEEN SUBSTANTIAL. BOJ OFFICIAL ADMITTED

THAT FROM AUG 4 TO AUG 7 BANK "VIRTUALLY DEFENDED" RATE OF 298 YEN/DOLLAR BUT THAT POLICY HAS NOW BEEN CHANGED TO ALLOW YEN TO MOVE IN EITHER DIRECTION. ON AUG 8 YEN FIRMED TO 297.70/DOLLAR WITHOUT ANY BOJ SUPPORT.

2. SLIGHT WEAKENING OF YEN IN RECENT WEEKS ATTRIBUTED TO GRADUAL DECLINE IN JAPAN'S EXPORTS. WHILE IMPORTS HAVE ALSO DECLINED, DOLLAR SUPPLY FROM CURRENT MONTH'S EXPORTS IS SOMEWHAT BELOW FOREX NEEDS TO PAY FOR IMPORTS FOUR MONTHS AGO. IN VIEW OF DECLINING VALUE OF EXPORT LETTERS OF CREDIT RECEIVED, MARKET OUTLOOK IS FOR EXPORTS TO REMAIN SLUGGISH OVER NEXT FEW MONTHS. IN PAST WEEKS, FINATT OFFICE HAS RECEIVED INCREASING NUMBER OF COMMENTS FROM GOJ OFFICIALS AND PRIVATE BUSINESSMEN ABOUT CONTINUING STAGNATION OF DOMESTIC DEMAND AND NEED FOR JAPAN TO RECEIVE A LIFT FROM THE CURRENT U.S. ECONOMIC RECOVERY. (FINATT OFFICE HAS POINTED OUT TO JAPANESE THAT EXPORTS TO U.S. ACCOUNT FOR NO MORE THAN PERHAPS THREE PERCENT OF JAPAN'S GNP -- TOO SMALL TO CREATE EXPORT-LED RECOVERY.)

3. CAPITAL FLOWS DURING PAST MONTH HAVE BEEN BASICALLY OFFSETTING. IN JULY ABOUT \$350 MILLION WORTH OF SHORT-TERM GOJ YEN BILLS HELD BY FOREIGNERS MATURED. THIS OUTFLOW HAS BEEN OFFSET BY \$200 MILLION LONG-TERM INFLOWS INTO GOVERNMENT-GUARANTEED BONDS AND YEN BONDS ISSUED BY BANKS AND INDUSTRIAL FIRMS, AS WELL AS ABOUT \$150 MILLION IN INFLOWS FROM BONDS ISSUED ABROAD BY JAPANESE FIRMS.

4. BOJ OFFICIAL SAID HE DID NOT EXPECT YEN TO WEAKEN BEYOND PRESENT RATE. HE NOTED, HOWEVER, THAT PRESENT BOJ POLICY (OF AGAIN ALLOWING RATE TO MOVE) WOULD ACCOMMODATE WEAKENING OF YEN BELOW 300/DOLLAR, BUT ONLY IF IT DID SO IN A RELATIVELY QUIET MARKET.
SHOESMITH

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